

EXECUTIVE SECRETARIAT**Routing Slip**

TO:

		ACTION	INFO	DATE	INITIAL
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12	Compt				
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15	D/OEA				
16	C/PAD/OEA				
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18	AO/DCI				
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SUSPENSE _____
Date _____

USTR review
completed.

Remarks:

8/ Executive Secretary
[Signature]
Date

0002 (10-81)

ON FILE USDA RELEASE INSTRUCTIONS APPLY

NSC review
completed.

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SENIOR INTERDEPARTMENTAL GROUP-INTERNATIONAL ECONOMIC POLICY

2:00 p.m.
January 27, 1983
Indian Treaty Room (Room 474, OEOB)

Executive Registry

83-0525/1

Attendees:

Treasury
Secretary Regan
Marc Leland

OMB
Dr. Alton Keel

State
Secretary Shultz
W. Allen Wallis

USTR
Amb. William Brock

Defense
Fred C. Ikle
Stephen Bryen

CIA
Henry Rowen
Maurice Ernst

Agriculture
Richard E. Lyng
Seeley G. Lodwick

OPD
Edwin L. Harper
Roger B. Porter

Commerce
Secretary Baldrige
Olin Wethington
Lionel H. Olmer

NSC
Henry Nau
Norman Bailey,
Executive Secretary

CEA
William Niskanen

Butter Sales

The Chairman called on Deputy Secretary Lyng to give the SIG-IEP an update on the issue of butter export. Mr. Lyng reported that since the SIG-IEP had not been enthusiastic about a butter for strategic materials barter deal with the Soviet Union, the USDA has explored other options for selling the butter. One option is to sell some 50,000 metric tons of butter to the Irish Dairy Board with an option to purchase another 50,000. Most, if not all, of the 100,000 metric tons of butter would go to the Soviet Union. Restrictions on export destinations would not be acceptable to the IDB. Another option would be to sell to the New Zealand Dairy Board either with or without restrictions on sale to the USSR.

Some participants argued that we should not sell subsidized butter to the Soviet Union. This would go against credit principles we have established in the East-West economic field with our Allies. Others noted that if we fail to put this

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butter into world markets, then EC countries, particularly France, are likely to make the sales, and unsold U.S. butter will continue to spoil.

Ambassador Brock stressed the importance of consultations with the EC in the event that we choose to sell either to the Irish or New Zealand dairy boards.

The Chairman concluded the discussion by suggesting that USDA explore whether New Zealand would be interested in purchasing the butter. If there is interest, then we can put the recommendation to the President. NSC, State and Defense argued against any significant subsidized butter sales at this time which might ultimately be used in the Soviet Union. In the event that the butter must be sold, then the lesser of evils would be sales to New Zealand.

Given the problem of timing (France may move to sell more butter by the end of the month and thus preclude any U.S. sales), it is not expected that the SIG-IEP will have another opportunity to discuss this issue. The Chairman called on USDA to explore a sale with New Zealand and then, in coordination with Norman Bailey, to prepare a decision memorandum for the President. This memorandum should be circulated among SIG-IEP members for comments before it goes to the President.

Blended Credits

On January 11, President Reagan announced a blended credit program of \$250 million direct credit and at least \$1 billion in CCC export credit guarantees. USDA has received and analyzed many proposals for use of these funds. The Chairman urged that the blended credits be reviewed at staff level by the National Advisory Council (NAC). If differences arise, then these issues should be discussed by the SIG-IEP.

Wheat Flour

The recent U.S.-Egyptian flour agreement has raised some European concern because the newly proposed U.S. flour sale will displace EC flour in the Egyptian market. The Europeans may take this issue to the GATT. Ambassador Brock noted that they will not have a good case against this sale.

Sale of Dairy Products to Egypt

Deputy Secretary Lyng gave a status report on U.S. efforts to sell butter for local currency to Egypt. The dairy products would be made available in Egypt to needy families through private grocers and government food stores at subsidized prices and therefore would not displace commercial sales by New Zealand.

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The Chairman requested that all issues relating to agricultural exports where subsidies are involved should be cleared through the NAC or at a staff-level IG composed of all member agencies of SIG-IEP and if there is a disagreement by any agency, the issue should be brought to the SIG.

Japanese Automobile Export Restraints

The Government of Japan must decide by March 31 whether to extend their current auto export restraint to the United States for a third year. The U.S. auto industry is calling for the extension of the restraint through March 31, 1985 (a third and fourth year).

The SIG-IEP members were sympathetic to a two year extension. Ambassador Brock, however, noted that we are likely to have continuing problems unless substantial Japanese investment in the U.S. industry is forthcoming.

Alaskan Oil Export

The Chairman called on Under Secretary Wallis to give an update on Alaskan oil exports. New circumstances--such as large finds in the Beaufort Sea and a glut in California markets--may suggest that now is an opportune time to lift the restrictions on U.S. oil export to Japan. However, we face a challenge in getting the Congress to amend the legislation. Ambassador Mansfield has been taking the temperature of key members of Congress and will report to Allen Wallis his findings. The Chairman urged Mr. Wallis' energy security group to continue its study of this issue and to develop options for consideration by the SIG-IEP so that the President can take a decision on this issue in the near future.

The Chairman then noted the President's initiative with Prime Minister Nakasone to establish a U.S.-Japan Energy Working Group. He asked Norman Bailey to produce a paper describing the origins of this idea, proposed terms of reference, participation, schedule of meetings, etc. and report back to the SIG-IEP.

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